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Understanding Ginnie Mae's Approach to Counterparty Risk

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Our Role in the Market

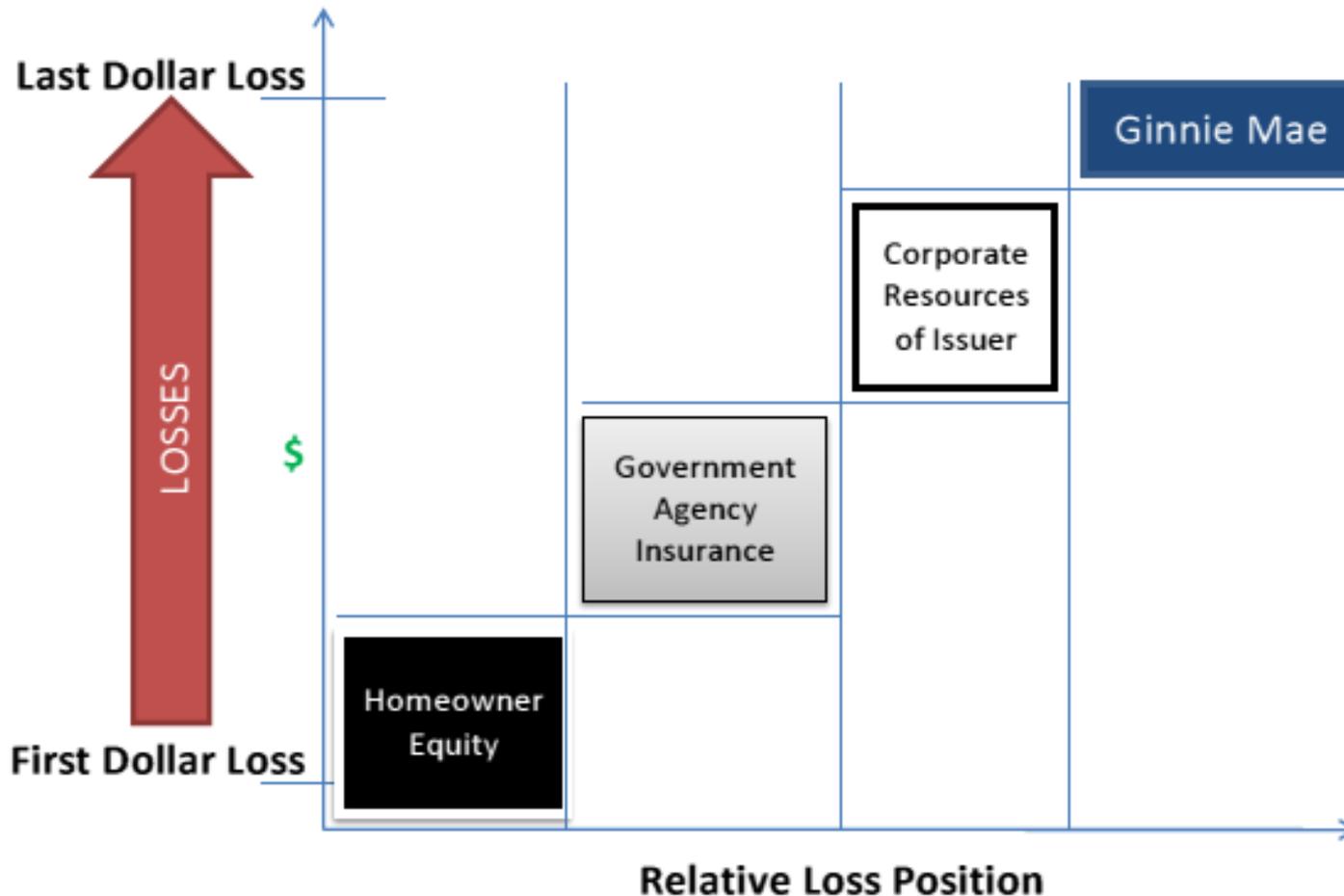
- Ginnie Mae is a Guarantor. *Ginnie Mae exists to bring global capital to the U.S. Housing Market*
- Guarantee timely payment of principal and interest on Ginnie Mae mortgage-backed securities (MBS)
 - *Securities composed of government-insured loans: FHA, VA, PIH, USDA RHS*
- Provide an **explicit** government guarantee on our MBS
- Approval authority for transfers of servicing
- Do not set credit or servicing standards, purchase loans, issue or invest in MBS
- **The primary risk to Ginnie Mae is that issuers will fail to perform their obligations under the guaranty agreement (i.e. make payment to investors on time), either due to a lack of financial resources or operational inability.**



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Ginnie Mae Model Distributes Risk





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Ginnie Mae's View of the Environment

- Increasing numbers of issuers
- Issuer profile changing
- More complex business models to monitor
- Trend of separation of financing from operating capacity
- Greater need to support market liquidity for MSR transactions and borrowing with MSR collateral
- Significant use of subservicers by Ginnie Mae issuers
- Servicing volume being moved to non-banks through the use of transfers of servicing (both co-issue (PIIT) and bulk deals) which require Ginnie Mae's approval and oversight



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Liquidity & Net Worth Changes

- Ginnie Mae was the first to release increased liquidity and net worth requirements in October 2014
 - Minimum net worth increased from \$2.5m plus 20 basis points to \$2.5m plus 35 basis points of issuer's total effective outstanding single family obligations
 - Minimum liquidity increasing from 20% of required net worth to the greater of \$1m or 10 basis points of the issuer's outstanding single family securities
- New requirements are *baseline*
- Introduced capital ratios as a measurement of strength (6% for most firms)
- Liquidity requirements are different than FHFA:
 - Most Ginnie Mae defaults have been due to liquidity issues
 - Ginnie standard measures cash on hand, not debt capacity
 - Essential as a requirement for Issuer stability



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Counter-Party Risk Management Protocols

Financial Monitoring

Financial tests categories follow industry standards

- Equity, Capital Ratio, and Liquidity
- Exposure Limits Analysis and Management
- Analysis of projected losses against core capital reserves

Risk Modeling/Scoring at the Entity Level

- Allows focus on the riskiest segment of issuer base
- Watch List Management

Credit Reviews

- Factors into decision-making regarding issuers (transfers, commitment authority, acknowledgement agreements, rate of growth)



Credit Review Sources

	* External Rating Agency	* Moody's CreditEdge	* Issuer Risk Grade	* Issuer Count
Large Depository Counterparty	●	●	●	105
Other Depository Counterparty	●	●	●	
Large Non-Depository Counterparty	●	●	●	9
Public Non-Depository Counterparty	●	●	●	
Other Non-Depository Counterparty	●	●	●	248

- Preferred or Typically Utilized
- Uncommon or Less Preferred
- Not Applicable or Never Available

Critical Void Filled
Ginnie Mae's proprietary IRG model fills a critical "blind spot" in financial surveillance.



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Integrated Counterparty Software Suite

Parent-Subsidiary Analysis

- Provides an institution view; unique from typical issuer view

Exposure Analysis

- Measures funds at risk with an institution; potential loss calculation

Public Ratings & Risk Grade Analysis

- Use of Moody's, S&P, and Fitch ratings or internal risk grading model

Financial Statement Analysis

- Incorporates issuer submitted accounting reports for ratio analysis

Limits Analysis

- Establishes max exposure from interplay of Exposure, Ratings, and Financials.

CW Suite: Integration & Value Add

- Leverages above five analyses into tools: Ratings Detail, What-If, Event Triggers



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Counter-Party Risk Management Protocols

- Operational Monitoring
 - Baseline Issuer Monitoring
 - Compliance Reviews
 - Delinquency Levels and Trending
 - Insurance Matching
 - Annual Financial Audit
 - Issuer Operational Performance Profile
 - Enhanced Issuer Monitoring
 - Operational Servicing and Document Custody Reviews
 - “Spotlight” Issuer Engagement
 - Corrective Action Plan Monitoring (Letters of Understanding)
 - Transfer of Servicing – Due Diligence, Planning, Monitoring



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Managing a Changing Landscape

- Ginnie Mae is working diligently to ensure that Issuers can be successful in our program.
 - Support MSR as an asset class
 - Continued enhancement of our ability to assess the financial and operational capabilities of issuers
 - Support market liquidity for MSR transactions and borrowing with MSR collateral
 - Aggressive program compliance through a variety of remediation tools
 - Preference for relocation of defaulted issuer portfolios to other approved counterparties, rather than government ownership



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